

Message Text

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ACTION CU-04

INFO OCT-01 EA-07 ISO-00 USIA-12 TRSE-00 /024 W

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R 050804Z FEB 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 831

UNCLAS MANILA 1320

E.O. 11652: NA

TAGS: SCUL, RP

SUBJ: PAEF FUNDS

1. PAEF HAS BEEN CONCERNED FOR SOME TIME ABOUT ERODING VALUE OF COMMISSION AND RETIREMENT FUNDS OWING TO INFLATION. CONSUMER PRICES DURING 1973 INCREASED 25 PERCENT, WHILE INTEREST RATE ON PAEF SAVINGS ACCOUNT IS ONLY 6 PERCENT. FOUNDATION FUNDS PLUS EMPLOYEE RETIRMENT FUNDS TOTAL P378,000, AN AMOUNT WHICH NO RESPONSIBLE CORPORATE TREASURER WOULD PERMIT TO REMAIN IN SAVINGS ACCOUNT AT 6 PERCENT INTEREST.

2. PAEF HAS RECENTLY CONSULTED WITH BANCOM DEVELOPMENT CORPORATION, WHICH ISSUES ITS OWN BILLS AT INTEREST RATES DETERMINED BY MONEY MARKET. ONE-DAY CALL RATE FOR BANCOM BILLS IS CURRENTLY 10 1/2 PERCENT. "STRAIGHT" INSTRUMENT OF FIXED MATURITY PAY FROM 10 PERCENT UP TO MAXIMUM 14 PERCENT ON 45 DAY BILLS.

3. BANCOM BILLS DIFFER CONCEPTUALLY FROM USUAL MONEY MARKET INSTRUMENTS IN WHICH BANK ACTS AS INTERMEDIARY AND PAPER IS OBLIGATION OF CORPORATION WITH WHICH FUNDS PLACED. ACQUIRING BANCOM BILL IS ESSENTIALLY SAME AS ANY OTHER BANKING TRANSACTION AS TO DEGREE OF RISK, BEING COMPARABLE TO U.S. BANKING CERTIFICATES OF DEPOSIT AVAILABLE TO LARGE DEPOSITORS IN LIEU OF SAVINGS ACCOUNTS.

4. BANCOM "STRAIGHT" BILLS, LIKE SAVINGS DEPOSIT, ARE CALLABLE PRIOR TO MATURITY DATE. ONE DAY BILLS ARE, OF UNCLASSIFIED

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COURSE, CALLABLE ON 24 HOURS NOTICE. INSTRUMENT MAY TAKE

FORM OF PROMISSORY NOTE OR, FOR "STRAIGHT" INSTRUMENT, A POST-DATED CHECK PAYABLE ON MATURITY DATE.

5. BANCOM IS LEADING INVESTMENT BANK IN PHILIPPINES, WITH TOTAL RESOURCES AT END 1972 OF P711 MILLION. AFTER TAX 1972 INCOME WAS P6.5 MILLION, AND CAPITAL TOTALED P28.5 MILLION. BANCOM IS MOST ACTIVE DEALER IN SHORT-TERM DOMESTIC MONEY MARKET WITH 1972 TURNOVER EXCEEDING P16 BILLION. ALMOST P5 BILLION OF THIS GOVERNMENT SECURITIES, IN WHICH BANCOM IS LARGEST DEALER.

6. WISH NOW TO PROCEED WITH UTILIZATION OF BANCOM BILLS FOR PORTION PAEF FUNDS. ADMINISTRATIVE PROCEDURES FOR BINATIONAL COMMISSIONS DO NOT APPEAR TO CONTAIN ANY PROVISIONS WHICH WOULD PRECLUDE THIS. PROVIDENT AND RETIREMENT FUND PROVISIONS IN SECTION 4 WILL REQUIRE AMENDMENT, WITH EMPLOYEE AND BOARD APPROVAL.

7. REQUEST CONFIRMATION THAT TRANSFER OF FUNDS INTO BANCOM BILLS NOT INCONSISTENT WITH ESTABLISHED BINATIONAL COMMISSION PROCEDURES. BECAUSE RETIRING PAEF EMPLOYEES ARE PAID LUMP SUM AMOUNT EQUIVALENT TO CONTRIBUTIONS TO FUND PLUS ACCRUED INTEREST, DIMINUTION IN REAL VALUE OF PROVIDENT AND RETIREMENT FUND IS OF ACUTE CONCERN TO THEM.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, WAGES, EDUCATIONAL EXCHANGE PROGRAMS, APPROPRIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA01320
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740255/aaaabzqh.tel
Line Count: 86
Locator: TEXT ON-LINE
Office: ACTION CU
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 08 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 MAR 2002 by elbezejf>; APPROVED <26 NOV 2002 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PAEF FUNDS
TAGS: SCUL, RP, US, PAEF
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005